

ORIGINAL

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION
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Arizona Corporation Commission

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NOV 3 2011

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IN THE MATTER OF THE APPLICATION
OF MORENCI WATER & ELECTRIC COMPANY –
ELECTRIC DIVISION – FOR APPROVAL OF ITS
2011-12 ENERGY EFFICIENCY IMPLEMENTATION
PLAN AND REQUEST FOR PARTIAL WAIVERS

DOCKET NO. E-01049A-11-0054

COMMENTS

Morenci Water & Electric Company ("MWE" or "Company") submits comments to this docket updating the Company's proposed Energy Efficiency Implementation Plan ("EEIP") filed on January 31, 2011.

I. BACKGROUND.

On January 31, 2011, MWE proposed its Energy Efficiency Implementation Plan for 2011 and 2012 – as required by the Arizona Corporation Commission's Electric Energy Efficiency rules ("EE Rules") approved in Decision No. 71819 (August 10, 2010). In that plan, MWE proposed the following four programs:

- Compact Fluorescent Lamp ("CFL") Program.
- Appliance Recycling Program
- Refrigerator Replacement Program
- Education & Outreach Program

Further, MWE requested several waivers from the EE Rules – including excluding mining load, excluding MWE from the standards for non-mining load, and excusing MWE from the reporting requirements under A.A.C. R14-2-2407 and R14-2-2409. The bases for these requests

1 are articulated in its January 31 pleading. In short, MWE's portfolio of proposed programs will
2 maximize the potential for energy efficiency within its service territory.

3 On August 2, 2011, Staff issued its memorandum and proposed order. Staff recommended
4 approval of MWE's EEIP, except for the Refrigerator Replacement Program. In lieu of that
5 program, Staff recommended that the CFL Program be modified to include a CFL giveaway
6 component similar to the APS Consumer Products Program approved in Decision No. 72032
7 (December 10, 2010). Also, Staff recommended granting MWE a waiver to exclude energy sales
8 for mining operations from the calculation of the energy efficiency standard required in A.A.C.
9 R14-2-2404 and a waiver of that standard for non-mining energy sales. Finally, Staff
10 recommended that MWE's EEIP be effective for 2012 through 2013. MWE filed no exceptions to
11 Staff's proposed order, and is prepared to implement Staff's recommendations into its EEIP.

12 On August 12, 2011, the Southwest Energy Efficiency Project ("SWEEP") contacted
13 MWE and expressed concerns about the Company's waiver request, proposed programs and
14 Staff's recommendations. As a result, MWE requested additional time to meet with SWEEP and
15 discuss its concerns and possible means to address those concerns, before its EEIP proceed to
16 Open Meeting. On August 31, 2011, MWE and a representative from Freeport McMoRan Copper
17 & Gold, Inc. ("FMI") met with SWEEP. MWE then arranged and met with Staff regarding
18 SWEEP's concerns. MWE also contacted Southwest Gas Corporation and the Southeastern
19 Arizona Community Action Program ("SEACAP") about potential programs applicable to MWE's
20 service territory. As a result, MWE developed its proposed Low Income Weatherization program
21 for the Commission's consideration.

22 **II. COMMENTS ON SWEEP CONCERNS.**

23 MWE maintains its support for Staff's recommendations in its August 12 memorandum.
24 Even so, MWE believed it was appropriate to meet with SWEEP, hear its concerns, and assess
25 potential modifications to MWE's plan for 2012 and 2013. The following summarizes SWEEP's
26 concerns and MWE's response.

1 **A. SWEEP Concerns.**

2 Essentially, SWEEP had two concerns. First, SWEEP essentially wanted a mechanism to
3 be able to count any efficiency gains by the mining operations in MWE's service territory toward
4 the entire energy savings in the state. Second, SWEEP had concerns about what it characterized as
5 the limited energy efficiency programs that will be offered to MWE customers. Regarding the
6 latter concern, SWEEP suggested a home performance assessment program or low-income
7 weatherization program and suggested working with either Southwest Gas Corporation or local
8 community action agencies in developing such a program for MWE customers.

9 **B. MWE Response**

10 **1. Mining Operation Efficiency**

11 MWE has discussed SWEEP concerns and proposals with Southwest Gas Corporation,
12 SEACAP and FMI, as well as Staff. The following describes MWE's response to SWEEP's
13 concerns.

14 Based on its discussions with FMI, MWE believes that FMI would like to pursue a
15 statewide energy efficiency and conservation plan (involving technological and process
16 improvements). To that end, FMI informs MWE that it would be willing to voluntarily provide
17 such a plan and report efficiency gains and energy savings through MWE, with any mining load in
18 other utilities' service territories carved out of the energy efficiency standard. Even so, FMI
19 further informs MWE that it will take some time to develop this plan and formulate a methodology
20 to accurately calculate such gains and savings (simply using energy sales does not accurately
21 depict gains and savings due to the nature of mining operations). Further, this plan would entail
22 working with other utilities to carve out the mining load from any energy efficiency standards in
23 future filings. That cannot be done for filings submitted this year.

24 FMI indicated to MWE that it will make efforts to pursue this issue in future energy
25 efficiency implementation plan dockets. To this end, MWE would be willing to accept the
26 responsibility to provide FMI's plan and report gains and savings in its future plan filings if:

- 27 i. MWE is provided that information;

- 1 ii. FMI is able to provide a plan encompassing all of its operations; and
2 iii. the Commission approves a carve-out of mining load from other utilities'
3 requirements to allow FMI to implement its plan for all mining operations in
4 Arizona.

5 **2. Non-mining program portfolio – Low-Income Weatherization Program**
6 **proposal.**

7 Regarding MWE's portfolio of programs for its non-mining customers, MWE
8 representatives met with SEACAP representatives in October, 2011. The meeting was very
9 productive. As a result of that meeting MWE proposes, as an alternative to Staff's
10 recommendation regarding a CFL giveaway, that the funds originally budgeted towards the
11 Refrigerator Replacement program be used to fund an MWE low income weatherization program
12 – where SEACAP would use such funding toward its Low Income Weatherization program within
13 MWE's service territory. MWE would provide funding to SEACAP for selected approved
14 weatherization items, which would supplement SEACAP ongoing efforts and programs for the
15 non-FMI owned properties in the Morenci town site and Clifton areas. Exhibit 1 to this pleading is
16 MWE's proposed low-income weatherization program. While MWE has no objection to the CFL
17 giveaway component that Staff recommends, using funds towards a low-income program in
18 conjunction with SEACAP may be a more effective and comprehensive means to achieve energy
19 efficiency savings within MWE's service territory.

20 MWE also contacted Southwest Gas Corporation about participating in its Residential
21 Energy Assessment program, which has not yet been implemented in MWE's service territory.
22 MWE is not in a position to run such a program itself, but may seek to participate in such a
23 program (in a supporting role) if and when this program is expanded to MWE's service territory.

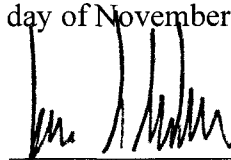
24 **III. CONCLUSION.**

25 Although MWE continues to support Staff's recommendations regarding the CFL giveaway
26 component, the Company would also support funding be allocated towards its proposed Low
27

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Income Weatherization program. Exhibit 2 is a proposed amendment that would approve the Company's proposed Low Income Weatherization Program.

RESPECTFULLY submitted this 3rd day of November, 2011.



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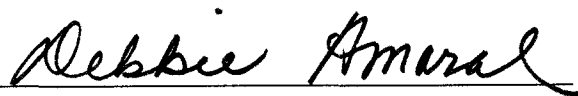
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Copies of the foregoing hand-delivered/mailed
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Debbie Amara

Exhibit

"1"

MORENCI WATER & ELECTRIC COMPANY

ENERGY EFFICIENCY IMPLEMENTATION PLAN ADDENDUM FOR 2012 TO 2013

***(Low Income Weatherization
Program)***

5. LOW INCOME WEATHERIZATION PROGRAM

Purpose

MWE recognizes that utilities typically consume a larger percentage of low-income family's income than for higher-income families – especially those at or below the poverty level. MWE further recognizes that many low-income customers live in older or mobile homes built before energy efficient construction methods were developed. MWE's Low-Income Weatherization (LIW) Program is to provide financial assistance to install measures that improve comfort and reduce overall energy consumption for eligible customers. The LIW Program will be focused on reducing electric consumption. Because most homes in MWE's service territory have evaporative cooling, it is unclear how much this program will reduce summer peak, but it should reduce electric consumption.

Program Description & Implementation

MWE has contacted the Southeastern Arizona Community Action Program ("SEACAP") regarding providing support and assistance to its existing low-income weatherization programs and expanding those to within MWE service territory. SEACAP has indicated to MWE that it will do so, and report the requisite savings with MWE's service territory to the Company. The program will focus on providing a means for MWE low-income customers to reduce their electric and natural gas consumption. MWE is aware of other programs that provide funding, such as the Federal Department of Energy (DOE) and the Low Income Home Assistance Program (LIHEAP). MWE's funding will provide additional assistance to complete additional home repair, equipment repair or replacement and other nominal weatherization steps that impact energy consumption.

MWE will provide funding to SEACAP for selected approved weatherization items. SEACAP agency representatives will determine what items are installed for each home. Funding provided to LIW agencies from DOE limits installation of items installed to only those measures that combine, contribute a minimum of 20% energy savings due to LIHEAP requirements. Funding from MWE will not be

limited to percentage of energy savings and may allow agencies to complete additional work in each home.

SEACAP Agencies may be asked to install certain energy saving products in any home they enter through its Housing Repair, Rehabilitation, & Weatherization, or its Emergency Assistance programs. This may support an increase in installation of low-flow showerheads, faucet aerators, CFLs, or hot water heater blankets.

MWE's program will be promoted through SEACAP, which directly provides weatherization services in MWE's service territory. MWE will provide funding will be provided to SEACAP when MWE receives documentation of the work completed. These agencies will determine participant eligibility and priority and will complete all work – as well as providing program administration, marketing, planning coordination, labor, materials, equipment, and tracking results.

Marketing and Communications

MWE will inform customers about the LIW Program, in addition to any referrals made by local Department of Economic Security (DES) representatives, health care service agencies and individual case workers. MWE will provide information about SEACAP, which is engaged in directly providing weatherization to customers within its service territory.

Program Implementation Schedule

MWE believes it can implement the program within three to six months after it receives approval. MWE believes it can serve a minimum of 8 homes a year with this program, assuming a maximum of \$2,000 is provided to each home.

Measurement and Evaluation

MWE, through SEACAP, will collect necessary data to track how the program is meeting its stated goals and objectives. This includes the

number of homes weatherized and what measures were taken for each home to improve comfort and reduce energy consumption.

MWE will use this data and best efforts to track the following information:

- Aggregate savings in kW (capacity) and kWh (energy).
- Environmental benefits, including reduced emissions and water savings.
- Incremental benefits and net benefits, in dollars.
- Costs incurred for the program – disaggregated by type of cost (e.g. costs of measures used to weatherize homes, administrative costs, monitoring and evaluating).

MWE will evaluate the progress of this program toward meeting energy efficiency goals, including noting any problems, the level of customer participation, and when modifications to the program are warranted or justified.

Program Budget

Table 1 – 2011 to 2012 Budget

Year	2011	2012
Total Budget	\$16,500	\$16,500
Weatherization Funding	\$16,000	\$16,000
Administrative Costs	\$500	\$500
Administration as a % of Total Budget	3.03%	3.03%

Estimated Energy Savings

MWE anticipates that at least 5 low income customers could be served annually in MWE's service territory through local weatherization agencies – if \$2,000 is used per home. The energy savings from this activity is presented in Table 2.

Table 2 – Estimated LIW Program Estimated Energy and Demand Savings

Year	2012	2013
Number of customers	8	8
Non-Coincident Peak (kW)	3.00	3.00
Coincident Peak (kW)	0.61	0.61
Savings (kWh) per home	1,094	1,094
Savings (therms) per home	70.1	70.1
Total Savings (in kWh) per home.	3,148	3,148
Total savings (cumulative in kWh)	25,184	50,368

Based on TEP LIW Program at Table 4 on page 6. 1 therm equals 29.3 kWh.

Table 3 – Projected Environmental Benefits, 2011-2012

Water Savings	23,950	gallons
SOx	0.3362	lbs
NOx	6.39	lbs

Program Cost Effectiveness

MWE assessed the LIW Program using the TRC Test and the SC Test. MWE considered the following factors when determining the cost effectiveness of this program:

- Net demand and energy savings attributable to the program;
- Net incremental cost to the customer of purchasing qualifying products;
- MWE's Program administration costs;
- The present value of Program benefits including avoided costs over the life of the measures;
- Lost revenues.

Table 4 – Cost-Effectiveness Analysis Assumptions

Program Term	2 years
Energy (\$/kWh)	\$0.047619048
TRC Discount Rate	8.50%
Social Discount Rate	5.00%
Water Savings	\$0.0040 per gallon

MWE incorporated these assumptions from data contained within programs for TEP and APS.

Table 5 is the benefit/cost analysis for this Program. Assuming the benefits last for ten years, this program will be cost-effective for eight homes weatherized at \$2,000 apiece if the total cumulative kWh savings are achieved. Regardless, MWE believes this can be a valuable program for low-income customers. Table 5 bases the Program cost at \$16,500.

Table 5 – Benefit/Cost Analysis Results Summary

Resource Cost Portfolio Benefit	\$31,426.17
Resource Cost Portfolio Costs	\$29,223.39
Resource Cost Net Benefits	\$2,202.76
Societal Cost Test Portfolio Benefits	\$33,175.46
Societal Cost Test Portfolio Costs	\$30,680.27
Societal Cost Test Portfolio Net Benefits	\$2,495.19
Total Resource Cost Test	1.08
Societal Cost Test	1.11

Exhibit

"2"

Exhibit 2

Approving MWE's Proposed Low-Income Program with the Southeastern Arizona Community Action Program (SEACAP).

(1) Page 11, line 22 INSERT the following new Finding of Fact:

“44. We agree that an Enhanced CFL Program would provide additional benefit to Morenci customers. However, MWE indicated in its filing on November 3, 2011, that it has met with the Southeastern Arizona Community Action Program (SEACAP) regarding implementing a low-income weatherization program in Morenci's service territory. Morenci has provided a program description in its filing with information that shows that its proposed Low Income Weatherization program would be cost-effective. Therefore, we approve the Company's proposed Low Income Weatherization Program as part of Morenci's proposed EE Plan, and that funding originated proposed for the Refrigerator Replacement Program be incorporated into the budget for the low-income weatherization program instead of towards an enhanced CFL program.”

(2) DELETE at Page 13, line 23 “as modified herein.”

(3) DELETE Page 14, line 1 through line 3.

(4) INSERT the following at Page 14, line 1:

IT IS FURTHER ORDERED that the proposed Low Income Weatherization Program be approved.

IT IS FURTHER ORDERED that the \$16,500 budget for the Refrigerator Replacement Program be incorporated into the budget for the Low Income Weatherization Program for a total budget of \$16,500 for that program.

(5) MAKE ALL CONFORMING CHANGES